

Hungary performs better

Foreword by the Chief Editor



Since I was admitted, at the age of 14, to the Jókai Mór Vocational School of Economics in the town of Pápa, I always endeavoured to understand the essence of economics in the extent its theory could be put into and tried in practice. And above all: the extent it worked. However, at the Budapest University of Economics, where I graduated during the change of regime, I was already somewhat overcome by doubt because I could hardly believe that on the ruins of planned economy and with the vulnerable Hungarian population strung along with delusive promises a neo-liberal raw market economy could be built in such a short time.

Why would capitalism built on free competition be better for people who had lived in the peace and relatively predictable living conditions of the economy run by the Kádár regime? For the sake of the younger generations: although the living standards was increasingly unsustainable, the regime managed to borrow from the West again and again, and these helped them maintain their power from the 1970's to the end of the 1980's. Moreover: they even managed the change of economic regime at their pleasure.

Why would the loss-making flagships of the former socialist industry and agriculture suddenly take off if they are given into private ownership, especially into foreign ownership? And mainly: How much of this is returned under the privatised scheme and in this production structure to society, to the hands of the workers who had toiled for it?

The university lecturers who had previously taught us scientific socialism became specialists in market knowledge and approach overnight. The teaching staff's position in favour of raw privatisation and business competition was markedly expressed. All over the country. Then the

various neo-liberal economic theories were actually tried in practice. To their utter undoing. I was shocked by what I was taught and what I saw, and did not recover for a long time. And I was not alone. By the last turn of the decade, nearly the entire society had become scandalised. *The economic policy of the change of regime had sunk into a crisis. I insist on my opinion that from the very first moment it was doomed to fail. True, it took nearly two decades for people to realise it nationwide. Up to 2008.* At that time, in the autumn of 2008 the Hungarian state went bankrupt not because the crisis that started in the spring of 2007 in Anglo-Saxon mortgage markets had reached Europe, including Hungary. Or to be precise, that was not the only reason. Allow me to repeat it: *By 2008, the system envisaged during the change of regime was on the rocks.* By that time it became a clear fact that the economic model imported from the English speaking areas, the irreversible decline of the Washington Consensus¹ in Hungary. Or to put it squarely: *the neo-liberal economic policy imported to Hungary had failed.* The collapsing neo-liberal market economy covered the Hungarian state and society. The fact that the countries which had exported their economic policies to us had sunk into crisis exactly by that time only added to our difficulties. For us it is a crisis raised to the second power. And the crisis has been dragging on for seven years now, but only in the Trans-Atlantic region and in the countries that insist on applying the neo-liberal economic policy formulas recommended by IMF and the European Union. Hungary has changed the direction in its economic policy. Consequently, the country is increasingly stabilised and getting stronger.

But coming back to the foundations, to the middle of the chronology: The raw market economy model imported to Hungary in the 1980s has remained alien to the system, and in 2010 we started to liquidate it. The public finances and economic policies described by Rodrik's model² can be clearly defined by their tools and methods used to regulate ownership rights, market conditions and the economy. Obviously, if the economic policies followed in a socialist planned economy, in a raw neo-liberal market economy, or in a model adopting the ideas of Konrad Adenauer or Keynes are described by different characteristics and are absorbed, they result in various economic policy and public finance models. The fourth element, and perhaps most important part, in Rodrik's model is the legitimization of a given economic governance.

To translate it to our specific case: the extent to which society endorses the economic system imported from the West and considers it as a good solution to its given situation. And that is the root of problems. The neo-liberal economic strategy applied during the change of regime one and a half million jobs were cancelled in industry and agriculture. The erosion of state-owned companies gathered pace and the international enterprises picked the plum of the Hungarian national property. *The “adjustment package” announced by Lajos Bokros in March 1995 made it obvious that the bill for the damages and losses caused by neo-liberal market economy building would be paid by the population, which could not increase their income or even struggled to survive.* The austerity package as the main tool of the neo-liberal economic policy was irreversibly institutionalised in Hungary, too. Not a word was said about legitimation by society. The Hungarian society has never endorsed or acknowledged this system. *During the short-lived golden era hallmarked by the Széchenyi National Development Plan (1999–2002), power and cohesion increased in the nation, which mitigated the adverse impacts of the traditional neo-liberal economic policy followed so far.*

However, almost a new era was opened in 2002. In 2010, budget deficit to GDP still exceeded 7 percent on average. Government debt was up by thirty percent. The remnants of the national property were privatised. Foreign direct investment gathered impetus but government indebtedness and deterioration in the living standard of the population also accelerated. To make ends meet, loans were repeatedly taken from abroad, and 2004 saw the start of swindling the population into an FX loan trap. With Hungary’s 2004 accession to the European Union, local councils became entitled to support from the Community. However, the state budget did not give them a financial elbowroom to be able to provide even the contribution required for EU support. Thus local authorities also sank into debt. In foreign currency. The state, the local councils and the population have been indebted in foreign currency. *According to 2009 statistics, confidence in the government was the lowest in Hungary form among all OECD member states.* By the turn of the decade it had become clear that the country should not be allowed to sink any further. Actually, we hit the bottom. The Hungarian Government showed signs of inoperability. The country was granted USD 25 billion by IMF, the World Bank and the European Union to maintain the appearance of operation.

The ways to overcome a crisis are few. And they certainly do not include the

methods that pushed us into crisis. We could not afford continuing indebtedness, as our dependence on the rest of the world (EU, IMF) would have increased, entailing further limitation of the elbowroom for the national economic policy. No more austerity packages could be applied, as they would have increased internal social instability. So we had to choose the third solution, shared contribution to public finances. *This is why taxes were levied on international commercial banks and multi-national companies, which had not paid taxes in Hungary for decades, or if they paid, the amounts hardly compared to their financial muscles.* Their contribution is HUF 600 billion per year. The government's measures taken to influence economic developments and cut regulated prices (overhead costs) add another HUF 400 billion per annum. Benefit to the population, to the disadvantage of the international companies. Up to HUF 500 million net sales revenues (typical mainly of Hungarian enterprises), the corporate income tax is only 10 percent, instead of the 19 percent levied on higher incomes. Instead of 36 percent, personal income tax is only 16 percent. Of course, the latter is also missing from the state budget. Although many tend to forget it, the introduction of the single-rate tax was completed by the system of expected wage increase, and these two measures increased the population's income by HUF 682 billion. Not even the lowest income bracket layer has a negative balance any more. *The objective was to leave more income with the population.* Similarly, the government guarantee for family tax allowances reduce the potential revenues of the central budget, while increasing the actual income earned by the population, especially those who raise children. And this is what we want to achieve. In the spring of 2010, the majority of the voters gave authorisation to the civic government to stabilise the economy and simultaneously improve the situation of families.

There was only one way to consolidate the nation: Having paid its debts to IMF, Hungary must adopt an independent economic policy. We are no longer dependent on IMF and decreasingly depend on the expectations of the EU, which suggests a neo-liberal crisis management. We do not want to stop levying taxes on international companies. We do not want to shift the entire cost of crisis management on the population and do not want to impose austerity measures. The past four years have justified the new Hungarian economic policy. The countries that have applied the crisis management tools of the IMF and the EU, and relied on austerity measures

have continued to sink, while Hungary has strengthened. This is due to the fact that it has abandoned the traditional crisis management methods recommended by the neo-liberal economic concept.

In 2013, Hungary was released from the European Union's Excessive Deficit Procedure. Rise in state debt came to a halt. The country was set on the trajectory of a predictable budget and development. The number of people employed has grown by 250,000 within four years and GDP increases quarter after quarter. The net financial worth of households is on the increase. Successful campaigns were made to save the families and local councils trapped in foreign currency loans. In 2013, the National Bank of Hungary joined the fiscal policy change started in 2010. The central bank base rate is declining, while the volume of money channelled by the MNB to the economy is on the increase. *Success is achieved by a national government that has been given the entire society's vote of confidence, in alliance with the citizens, rather than by individual sectors. The key to success is fiscal and monetary policy applying the right method.* The structure of economic governance creates the continuous success that is the common denominator of government finances and the central bank's monetary policy tools. This is what makes success visible and the results palpable.

The assessment "Hungary performs better" can be underpinned by figures. It was given the chance to do so when during the 2010 elections the right wing obtained two-thirds of the votes. Four fifth of the constituents rejected the previous regime. While more people demonstrate in sympathy with the government than against it during the four-year government cycle, stability is granted. And this is the basis of peaceful governance. Ultimately, coming back to Rodrik's model, for the legitimation a public finance model and an economic policy it is insufficient to have them published in course-books (although the latter is not negligible),³ and tackle them in academic research, the majority of the society should approve it.

Polgári Szemle publishes essays in economics, political and other social sciences in a rightist approach, according to civic values. Polgári Szemle offers scientific interpretations for the prevailing economic and social phenomena, and fits the current developments into an academic framework. Non-traditional public finances and the revisited social policy are tiers in the professional legitimation of the Hungarian Model.

The studies included in the economic section of this issue, by authors such as MNB governor György Matolcsy, president of the State Audit Office László Domokos, professor of law Csaba Szilovics of the University of Pécs, professor of law Tamás Prugberger of the University of Debrecen, research fellow Péter Novoszáth of the National University of Public Service, represent high value and a new approach, and as such they transfer new knowledge. They shape the academic view of their respective specialisations, the very same values and efforts are represented in the following studies.

The editors endeavour to widen its horizons similarly to the Hungarian Government, which meets its obligations to its key alliances in the European Union, while increasingly co-operating with Russian, Arabian and Chinese investors. We need fresh money and fresh ideas. In November 2013, when *professor Junqing Li, dean of the University of Minzu* was invited to the National University of Public Service to speak of Chinese governance, active state influence on the economy and the regulatory system, it stood to reason that his ideas should be made known to a wider public in addition to the several hundred students who attended his lecture. This is how it was decided that the specialist in Chinese economic and social governance would be requested to publish an article in this volume. Allow me to kindly draw the reader's attention to the renowned Chinese professor's study. The most rapidly developing country in the world and the new global power coordinates its fiscal and monetary policies. Government regulation and tight central control increase performance in the national economy. Thus the Hungarian economic model is not the single one in the world. *There are similarities between the Chinese and the Hungarian economic governance, as both rely on active government influence. The elaboration of a national economic policy does not primarily involve the transposition of selected external opportunities, rather the building of a structure that fits the particular country's history, and the needs and characteristic features of its society and market participants.* Why should we follow the austerity measures imposed by Greece, Spain and Romania on the advice of IMF, while the European Union, including the Euro Area, and the Mediterranean Region are in a deepening crisis? *We need new alliances and new trade partners. This is why the country entered into economic framework agreements with Russia and, shortly after, China in early 2014. The transfer of scientific knowledge to these regions is indispensable.*

In order to further excite the reader's curiosity, allow me to high-

light our column entitled *The Living Past*, including essays by professor and holder of the Széchenyi Award, Miklós Kun; professor Attila Horváth, specialist in the history of law; and Zoltán József Tóth, specialist in constitutional law, who give thought-provoking, albeit sometimes gruesome, glimpses of the world of dictatorships.

Professor Gábor Török of the Hungarian Academy of Sciences, who is a specialist in law, analyses the ruling adopted by the Constitutional Court in the case of foreign currency loans, while university reader Stefánia Bódi, an long-standing and highly respected colleague of our staff, makes an international comparison between the various regulations of the right of assembly. Without going into details, allow me to mention studies by Gábor Hamza, standing member of the Hungarian Academy of Sciences (in recognition of his outstanding research and educational activity in legal science and the practice of law, on 15 March, 2014 the author was granted the Order of Merit, Commander Cross with Star), Attila Kovács (former student of the Benedictine Secondary School of Pannonhalma and then head of the Defence Economics Department at the Budapest University of Economics), Imre Turóczi, rector of the College of Szolnok, which add colour and further increase the intellectual standard of our scientific journal. And not for the first time.

The reviews and scientific workshops repeatedly offer an opportunity for university students who publish for the first time, thus reviews by talented undergraduates of the OSTRAKON group of the National University of Public Service – including Márton Bagány, Máté Dávid, Csaba Fási, and Ottó Kiss – of a book edited by my learned colleague, Dr Ágoston Korom and discussing various issues of the Hungarian regulation of land management in domestic and EU perspectives.

It is worth reading the *Polgári Szemle!*

Prof. Dr. Csaba Lentner
full professor, chief editor

NOTES

- ¹ The theoretical basis of the neo-liberal market economic system. Its most essential ideas include the liberalisation of finances and foreign trade, encouragement of foreign direct investment, privatisation, focus on the “state is a bad owner” ap-

proach, deregulation (removal of statutory limitations), and institutional support and efficient protection to the evolving private ownership. All this is accompanied by tight budgetary discipline. Moreover, this is done by considerably reducing the tax income and the circle of taxpayers (excluding the working capital and bank capital from tax payment obligations), removing customs duties, and limiting the state's regulatory and supervisory scope and tools. Meanwhile, the only coverage for government spending include the taxes paid by a reduced circle of domestic proprietors and businesses declining in capital power and by a decreasing number of persons (employees). Rising budget deficit and state debt are inherent in this system. For further details see Lentner Csaba: *Bankmenedzsment. Bankszabályozás – Pénzügyi fogyasztóvédelem*. [Bank Management. Banking Regulation – Financial Consumer Protection] Chapter X. Nemzeti Közszerológálati és Tankönyv Kiadó, Budapest, 2013.

- ² According to the classification given by Harvard profession Dani Rodrik, there are four distinguishable institutional groups that are indispensable for economic and social development. The institutions that guarantee protection for ownership rights, as protection and guarantee for the given type of ownership rights are preconditions of development. The institutions relating to market regulation and those required to manage market failures. The institutions serving stabilisation, set up to develop and maintain the business environment. And the last, but not less important class: the institutions dedicated to legitimation.
- ³ Lentner Csaba: *Közpénzügyek és államháztartástan* [Public Finances and the Study of the General Government]. Nemzeti Közszerológálati és Tankönyv Kiadó, Budapest, 2013 (see the review of Dr. Pál Péter Kolozsi); Novoszáth Péter: *A társadalombiztosítás pénzügyei* [Finances in Social Security]. Nemzeti Közszerológálati és Tankönyv Kiadó, Budapest, 2014; *Polgári Szemle* and *Pénzügyi Szemle*, a scientific journal of public finances, both published on a quarterly basis; research reports by the State Audit Office and the National Bank of Hungary, just to mention the most important media of the new kind of non-traditional workshops.